



The Real Estate TRENDS

JULY 30
1954

Volume XXIII

Number 33

A concise monthly digest of real estate and construction fundamentals and trends . . . A part of the complete service known as the Real Estate Analyst Reports

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REVIEW OF 1954 FORECASTS

FOllowing our usual midyear practice, this bulletin will review our January forecasts for accuracy and for any needed readjustments. The January comments are quoted below in red, and our current remarks on the situation follow in blue.

REAL ESTATE ACTIVITY

The probabilities are that activity will run around 10 to 15 points above normal for the year, and this will mean a total volume of 4,200,000 to 4,500,000 voluntary sales. However, while 1954 will probably not show a serious drop in real estate activity, it will be a year in which the various indexes should be watched most closely.

So far this year, our real estate activity index has run between 10.6 and 17.6 points above normal. There is reason to believe that the 1954 housing bill when passed will provide some stimulation of the market during the last half of this year. Thus, while the first half of 1954 has been well in line with our January estimates, there is a possibility that the last half will exceed our expectations.

MORTGAGE ACTIVITY

Activity during this year will not be so high as it was in 1953. Nevertheless it will be a good year for the mortgage business, and a year of many significant developments as various portions of the Eisenhower housing program are fought through Congress.

Here, again, the first 6 months of 1954 were right in line with our expectations. However, we feel that the rapid increase in mortgage money and the new housing law will bring mortgage activity to a near record (or new record) in 1954.

INTEREST RATES

Following their rather sharp rise in 1952, average mortgage interest rates held steady during all of 1953 at their postwar high of 5.3%. The chances are that there will be little change in the average rates, with the possibility of a slow downward drift.

Our average interest rate index of recorded mortgages in 11 major cities has shown relatively little change. However, the change has been a slow downward drift which saw the 5.187 January average ease down to 5.121 in June. During

the next 6 months we look for no sharp changes. While rates could go either way by a small amount, the probabilities are for further slight drops.

FORECLOSURES

Any widespread trouble in foreclosures is still several years away.

It still is. Later on in the year, when our survey of mortgage lenders is complete, we will probably have more specific comments on foreclosures.

RENTS

This year will see a continued rise in the rent level, but it will be many years before rents play the important part in the American economy

that they have in the past.

The rent index has continued its slow advance, rising from 114.7 in January 1954 to 115.7 in June. This slow climb will no doubt continue throughout the year.

REAL ESTATE TAXES

The national average real estate tax per family has increased 67% since 1945, and it will go still higher in 1954.

Midyear figures are not available on this index; nevertheless, we still feel as certain of this forecast as we did when we made it.

DWELLING UNITS

If we had to pinpoint a figure, we would guess 975,000 units, but in any event we believe that the total volume will run so close to 1,000,000

that the variance will be insignificant. The Bildors are fighting hard to make sure that their industry will reach their annual goal of 1,000,000 units, and they have the administration solidly behind them. At this time it appears that Congress will prove amenable to most of their recommendations.

The furor over the FHA has made Congress a good deal less amenable than it appeared to be in January. The 1954 housing bill has still not been passed, but it is certain to take a considerably different shape than was expected earlier in the year. Nevertheless it now seems certain that the Bildors will achieve their 1,000,000-unit goal for the sixth consecutive year.

CONSTRUCTION VOLUME

Last year saw dollar volume of all construction rise to an all-time high, and volume in 1954 will not be far behind. The best-informed sources estimate a total volume of \$34 billion, or only 2% off the record-breaking level of 1953.

A good guess now would be 2% ahead of 1953 (for a new record) rather than 2% behind. Industrial construction is the only major segment of nonfarm construction to show a drop during the first half of this year. Even so, it is still running at a rate in excess of \$2 billion for the year.

CONSTRUCTION COSTS

Here, again, we think that 1954 will see relatively little change, but the probabilities are that what changes do occur will be in a downward direction.

The average St. Louis cost of our four typical houses has changed less than two-tenths of 1% since January. Unfortunately, this change has been up instead of down. During the rest of the year we expect costs to move upward slowly.

OFFICE BUILDING VACANCIES

. . . office building construction will continue at a brisk pace during 1954, and the vacancy level will increase.

The dollar volume of new offices, lofts and warehouses built during the first half of this year was 41% ahead of the volume for the same period in 1953. Although the change in the vacancy level has been slight, it has been increasing.

FARM TAXES PER ACRE

in 1954.

Since reaching its low point of 36¢ per acre in 1943, the average tax on farm real estate has risen 125%, and will probably go up another notch

FARM VALUES PER ACRE
cause for long-term worry.

In other words, we expect farm incomes and farm land values to undergo further shrinkage. However, most experienced farmers have little

We still feel substantially the same as we did when we made this estimate. Farm lands have been overvalued and are shaking down to a more reasonable level. A few farmers have been hurt, but the long-range outlook is very favorable.

WHOLESALE COMMODITY PRICES

During all of 1953 the wholesale commodity price index was unusually stable . . . The outlook for 1954 is for a slow downward drift in the index. We anticipate no startling changes.

This remarkable stability has stayed with the index during the first half of 1954. There have been no startling changes and the drift has been downward - by one-tenth of 1%. We see no reason to change our January comments.

WHOLESALE BUILDING MATERIAL PRICES

There seems to be little reason for expecting any drastic changes in this index in 1954, but we believe that the probabilities favor a slight decline.

Here, again, stability has been the keynote. The slight decline has occurred,
(cont. on page 294)

\$341.25
\$334.12

Business Activity

STOCK PRICES

275
250
225
175

Industrial Stock Prices
To 1897 E. W. Axe's index, from 1897 Dow-Jones
Use Scale at Left

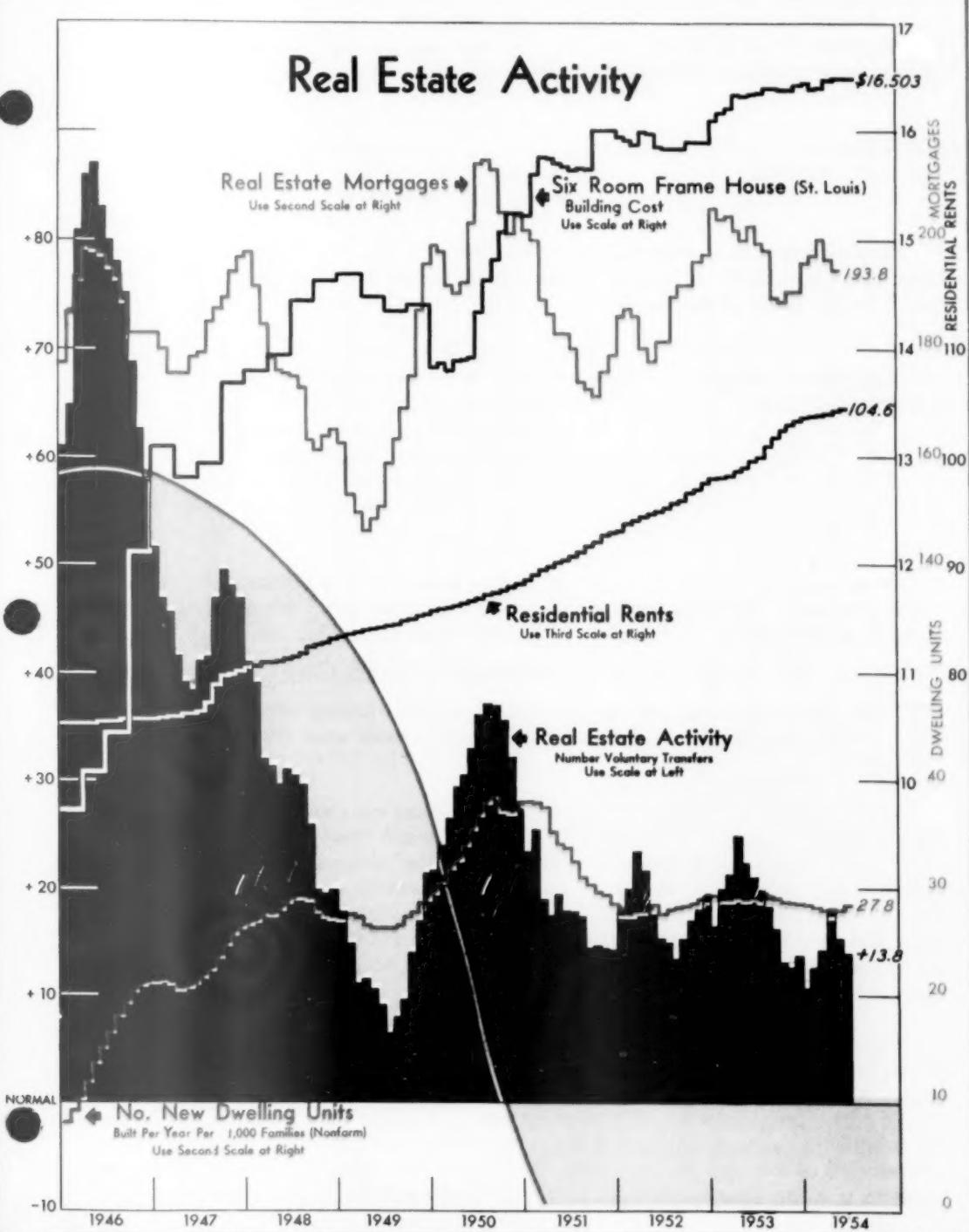
+40
+30
+20
+10
NORMAL
-10

General Business Activity
Cleveland Trust Company
Use Scale at Left

WHOLESALE PRICES
200
175
150
125
100

Wholesale Price Index
1926 = 100
Use First Scale at Right

Real Estate Activity



(cont. from page 291)

moving from 119.6 in January to 118.6 in May (latest available figure). The rest of the year should see a similar performance.

WHOLESALE LUMBER PRICES

We think that the odds favor further price drops in 1954 - nothing drastic, but probably bigger drops than will be experienced by the building materials field as a whole.

There have been no sudden drops in this index. It has moved downward slightly, from 115.9 to 115.0. If it were not for the strike on the West Coast, the outlook would be for more of the same.

PURCHASING POWER OF THE DOLLAR

From a statistical viewpoint, it may be mildly interesting that the dollar was worth 52.5¢ in 1953, while it was worth only 52.4¢ in 1952. As an indication of increased purchasing power it is

scarcely worth mentioning. The real significance, then, lies only in the fact that the steady deterioration of our dollar's value has at least temporarily been halted. Our guess is that 1954 may see the dollar pick up two-tenths of a cent in purchasing power instead of only one-tenth.

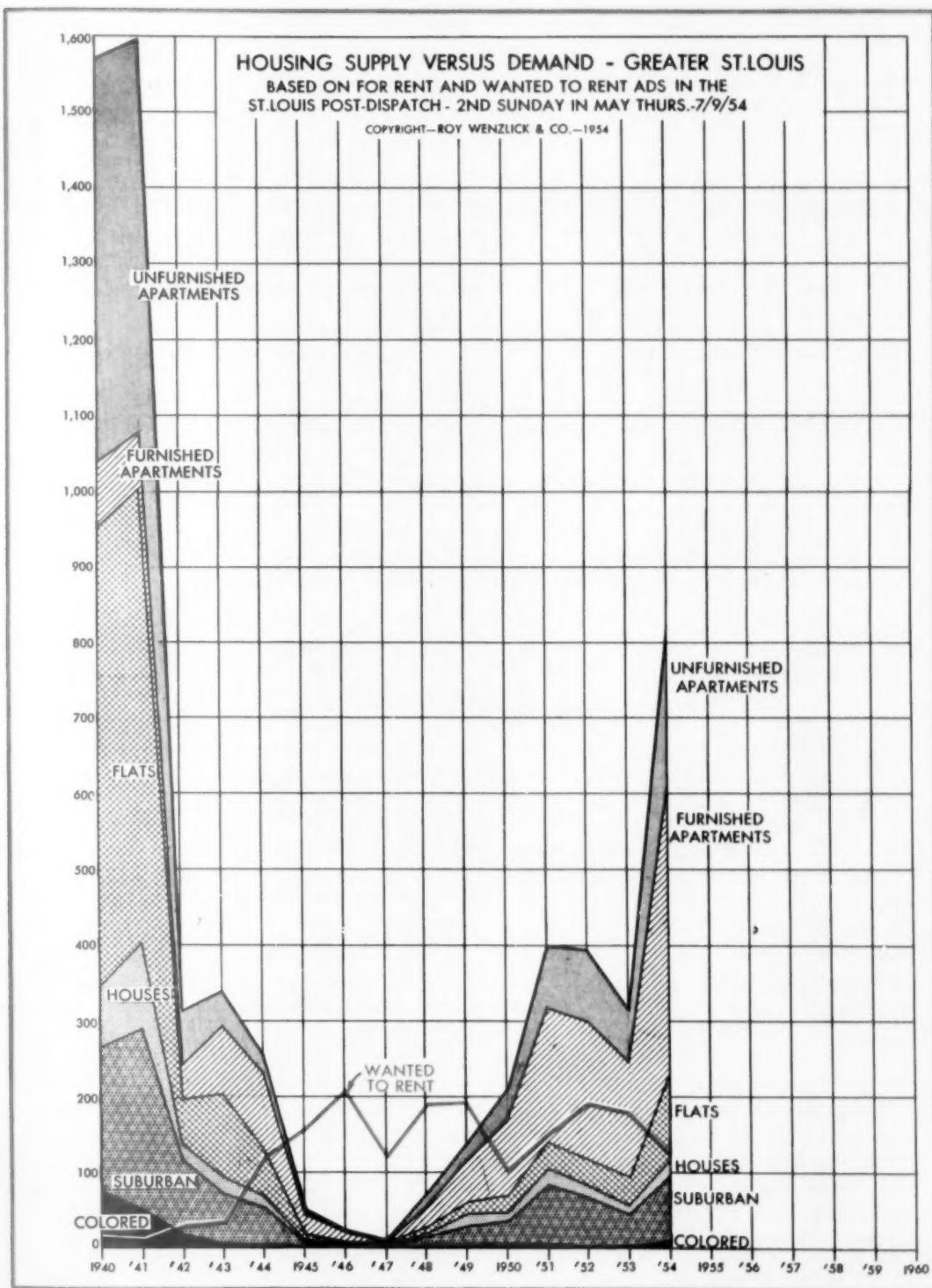
From January to April, the purchasing power of the dollar did gain two-tenths of a cent. However, since then it has lost one-tenth. We believe that the changes in this index will continue along these same lines for the next 6 months.

ST. LOUIS RENTAL MARKET EASES GREATLY

THE chart at the right shows the changes in relationship between the demand for and supply of rental housing in the St. Louis area from 1940 through 1954.

After considerable research we have found that the changes in these supply and demand factors can be measured by counting the "for rent" and "wanted to rent" ads running in the classified sections of the newspapers. This chart is based on the ads counted in the St. Louis Post-Dispatch on the second Sunday in May for each year from 1940 to 1954. Similar (though not so detailed) studies are under way in other major cities of the country and the results will appear in the September Real Estate Analyst. This study will become a regular part of our reports for so long as its results are of interest.

The rental situation in St. Louis has eased greatly, even though the number of families seeking rental units is unusually high. Biggest demand is for single-family homes in the suburbs, and those offered at \$25 to \$35 per room are quickly rented. The large number of furnished apartments for rent is the result of the big number of conversions that were undertaken in order to get units out of the jurisdiction of Federal rent control. The large and continuing influx of Negro families into the area has allowed virtually no easing of the Negro rental market.



REAL ESTATE SALES PRICE INDEX

For the last few years there has been an early spring rise in our sales price index. This year it failed to materialize. Instead, the index stabilized during the first 5 months.

However, preliminary figures for June indicate that the midsummer rise is on. You can see that during the last 2 years the annual peaks in sales prices have come in June and July. Apparently, this year will follow the same pattern.

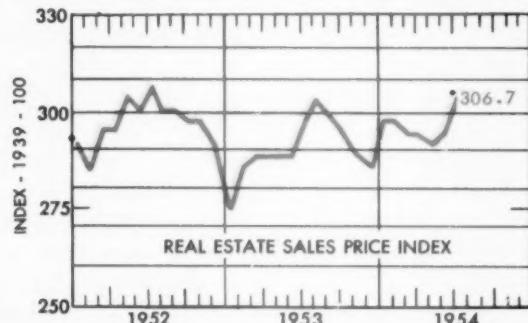
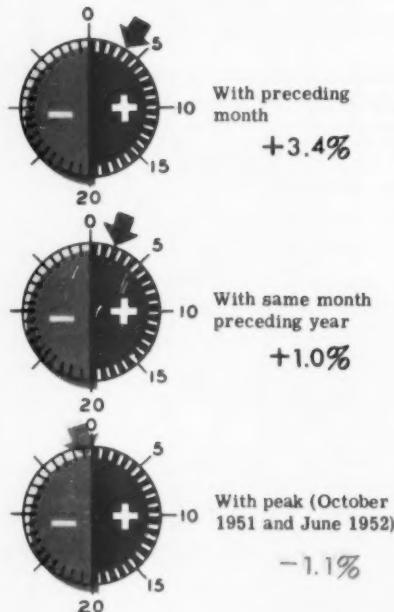
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We are slowly working out our sales index on houses of different age groups. This will probably be the most practical and useful division of our present index, which is now made up of the sales on single-family residences of all ages.

The division will probably result in three indexes: one for average sales prices on homes built during the boom of the 1900's; one for homes built during the boom of the 1920's; and one for homes built during the present boom.

We believe that these three indexes will be the most interesting and useful tools and bench marks to be developed for the real estate industry since Roy Wenzlick discovered and charted the real estate cycle almost 30 years ago.

REAL ESTATE SALES PRICE COMPARISON IN JUNE 1954



Date	Selling price index	Probable selling price of a house that sold for \$5,000 in 1939
1939	100.0	\$ 5,000
Jan. '53	287.0	14,350
Feb. '53	290.0	14,500
Mar. '53	290.0	14,500
Apr. '53	290.0	14,500
May '53	290.0	14,500
June '53	300.0	15,000
Jan. '54	300.0	15,000
Feb. '54	296.0	14,800
Mar. '54	296.0	14,800
Apr. '54	293.0	14,650
May '54	296.8	14,830
June '54*	306.7*	15,335*

*Preliminary.